A Report
to the
Montana
Legislature

Financial-Compliance Audit

Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2019

March 2020

Legislative Audit Division

19-19

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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March 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of Public Instruction for the two fiscal years ended June 30, 2019.

We focused our audit effort on activity related to the state aid and federal funding distributed to the school districts. Throughout the audit, we also reviewed and tested selected control systems and determined compliance with various state laws and federal regulations. The financial schedules are generated from the state's accounting system without adjustment. Notes to the financial schedules are prepared by office personnel.

Our audit contains seven recommendations related to internal controls and compliance with federal requirements for the office's major federal programs, compliance with state travel policies, and internal controls over recording revenue estimates and construction work in process balances.

The office's written response to the audit recommendations is included in the audit report at page C-1. We thank the superintendent and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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Elected, Appointed and Administrative Officials

Office of Public Instruction

Elsie Arntzen, Superintendent

Jule Walker, Deputy Superintendent

Phoebe Williams, Executive Office Administrator

Julia Swingley, Chief Legal Counsel

Jason Butcher, Assistant Deputy Superintendent

Dylan Klapmeier, Director of Communications and Federal Relations

Christy Perryman, Administrative Clerk (as of February 2020)

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Financial-Compliance Audit

Office of Public Instruction

For the Two Fiscal Years Ended June 30, 2019

March 2020 | 19-19 | Report Summary

The Superintendent of Public Instruction (office) is responsible for general supervision of public schools, including distribution of state and federal support. Our audit resulted in seven recommendations related to internal controls and compliance with federal requirements for the office's major federal programs, compliance with state travel policies, and internal controls over recording revenue estimates and construction work in process balances.

Context

The office distributes funds awarded to local school districts in support of K-12 education. In fiscal years 2019 and 2018, the office distributed more than $1 billion and $971 million, respectively, to school districts. The office is also responsible for monitoring more than 400 school districts to ensure compliance with state and federal regulations.

The office is comprised of two programs. The State Level Activities program is established for the delivery of state services to public school districts, the management of federal grants, and the administration of the distribution of state funds to public school districts. The Local Education Activities program is established to distribute state and federal funds to local education agencies, which are primarily school districts. This includes distributions of state support for schools based on the Average Number Belonging (ANB) calculations. ANB is the average number of regularly enrolled, full-time pupils physically attending, or receiving educational services at an off-site instructional setting, from the public schools of a district. The program also distributes federal grant award funds to schools.

The Title 1, Grants to Local Educational Agencies (Title I); Child Nutrition Cluster; Individuals with Disabilities Education Act, Part B (IDEA B); and 21st Century Community Learning Centers (21st CCLC) are important federal programs for the state of Montana. Much of our audit work concentrated on testing compliance with the federal regulations related to these grants. We also spent time determining the reasonableness of the state funding to schools presented on the office's financial schedules.

Results

We found the office's financial schedules presented fairly the activity of the office in all material respects and issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented.

The audit contains seven recommendations to the office. Four of these recommendations are related to the office's internal controls and compliance with federal requirements

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for the office's major federal programs. We found the office did not perform all required subrecipient monitoring, can enhance its internal controls to ensure they do not award federal funds to suspended or debarred entities, can enhance internal controls to ensure they only pay allowable costs for the 21st CCLC program, and needs to continue its implementation of assessment security procedures required by the Title I program.

The remaining three recommendations are related to internal controls over the office's compliance with state travel policies and recording of revenue estimates and construction work in process balances. We found the office does not have adequate internal controls to ensure it only pays for travel costs in accordance with state accounting policy, does not have internal controls to adjust construction work in process balances once a project is complete, and has a revenue estimate recording process that creates excess estimates on the state accounting records.

The prior audit contained two recommendations to the office. The office implemented the recommendation related to compliance with the Treasury State Agreement. The office partially implemented the recommendation related to strengthening monitoring over the implementation of schoolwide security agreements on statewide required student testing.

Recommendation Concurrence	
Concur	5
Partially Concur	2
Do Not Concur	0

Source: Agency audit response included in final report.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (office) for the two fiscal years ended June 30, 2019. The objectives of the audit were to:

1. Obtain an understanding of the office's internal control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in the internal and management controls of the office.
2. Determine whether the office's financial schedules present fairly the results of its operations and changes in fund equity for each of the two fiscal years ended June 30, 2019.
3. Determine the implementation status of the prior audit recommendations.
4. Determine whether the office complied with selected state and federal laws and regulations.

We addressed these objectives by focusing our audit effort on activity related to the state BASE aid and federal funding distributed to the school districts. As defined in §20-9-306, MCA, BASE aid includes direct state aid, per-ANB entitlement, natural resource development K-12 funding, guaranteed tax base, special education, quality educator, at-risk student, Indian education for all, and data-for-achievement payments. ANB is the average number of regularly enrolled, full-time pupils physically attending, or receiving educational services at an off-site instructional setting, from the public schools of a district. We reviewed audit reports and recalculated ANB for select schools in addition to reviewing the office's testing spreadsheets and reconciliations for the most significant state payments to schools. In our overall review of the presentation of the financial schedules, we completed a trend analysis over past payments.

We also completed analytical reviews, and tied high-dollar transaction information to support, in order to determine the schedules are reasonable in all material respects. Throughout the audit, we also reviewed and tested select internal control systems and determined compliance with various state laws and regulations. We audited the following federal programs: Grants to Local Educational Agencies (Title I); Child Nutrition Cluster; Individuals with Disabilities Education Act, Part B (IDEA B); and 21st Century Community Learning Centers (21st CCLC). They are all significant federal programs for the state as a whole. Federal regulations require some programs not be audited as part of the Single Audit if they meet certain criteria and instead be replaced by other federal programs. The 21st CCLC program was one of these replacement programs for the current Single Audit.

Internal Service Fund

As directed by §17-8-101(6), MCA, we reviewed the reasonableness of the fees and charges for services and fund equity for the office's internal service fund. The internal service fund includes the office's indirect cost pool. Based on our analysis, the fees charged and fund equity balance in the internal service fund were reasonable for each of the two fiscal years ended June 30, 2019.

Office Organization and Function

The Superintendent of Public Instruction is designated as an executive branch officer in Article VI, Section 1, of the Montana Constitution. The Superintendent of Public Instruction is the elected official responsible for the general supervision of K-12 public schools and districts within the state of Montana. In addition, the superintendent is the executive officer for K-12 and vocational technical education in the state.

The office, which is comprised of approximately 180 full-time equivalent employees, provides services to school age children and teachers in more than 400 school districts. The staff furnishes technical assistance in planning, implementing, and evaluating educational programs. The office also oversees educator preparation, educator licensure, school accreditation, school curriculum, school finance, and school law. The staff administers numerous federal grants and provides a variety of information services. The office accounts for its expenditure activity in the State Level Activities and the Local Education Activities programs. The following paragraphs describe the activities accounted for in each program.

State Level Activities

The State Level Activities program is established for the delivery of state services to public school districts, the management of federal grants, and the administration of the distribution of state funds to public school districts. The staff of this program support the superintendent's statutory role with the Board of Public Education, the Board of Regents, and the Board of Land Commissioners. In addition, program personnel administer several state programs, such as drivers' education, school food services, and audiology.

Within this program, the office oversees the financial reporting, cash management, subrecipient monitoring, and cost allocation functions for federal grants. These grants include: Title I, Child Nutrition Cluster, IDEA B, and 21st CCLC. The program accounts for the allocation of centralized administrative costs of the office (payroll, personnel, accounting, budgeting, purchasing, word processing, and mail delivery) to both state and federal programs.

Local Education Activities

The Local Education Activities program is established to distribute state funds to local education agencies. The program also distributes federal grants to schools. Total state and federal expenditures and transfers-out to local education agencies amounted to $971,629,114 and $1,007,168,881 in fiscal years 2018 and 2019, respectively.

Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2017, contained two recommendations. One recommendation was related to compliance with the Treasury State Agreement, an agreement made between the state of Montana and the federal government for reimbursement of federal program costs. This recommendation is fully implemented as of fiscal year 2019. The other recommendation was related to strengthening monitoring over the implementation of schoolwide security agreements on statewide required student testing. This recommendation was partially implemented and is discussed in further detail in Recommendation 4 on page 10.

Chapter II – Findings and Recommendations

Subrecipient Monitoring

The office did not perform all required subrecipient monitoring for its major federal programs.

The office administers several federal grants from the Department of Education: Title I, Grants to Local Education Agencies (Title I); Individuals with Disabilities Act, Part B (IDEA B); and 21st Century Community Learning Centers (21st CCLC). These funds are intended to help support the educational needs of students at risk of not meeting academic standards both during school hours and when schools are not in session, and students with disabilities. The office also administers the Child Nutrition Cluster of federal programs from the Department of Agriculture to provide free and reduced priced meals to students in school.

The office is considered a pass-through entity for the federal grants; and, as such, is responsible for conducting a risk assessment of each subrecipient for the purpose of determining appropriate subrecipient monitoring, and verifying certain subrecipients received federal Single Audits. In addition, the office must evaluate the Single Audit results, issue management decisions on findings, and conduct follow-up on audit findings. The management decisions must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected subrecipient action. Additionally, federal regulations require the office to establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

The office's controls over subrecipient monitoring are not sufficient to ensure compliance with the federal regulations, as outlined below:

- ***Subrecipient Audits***: Review of subrecipient audit reports is performed centrally by office staff. The office does not have controls in place to verify its nonschool entity subrecipients receive a Single Audit. These nonschool entities are not for profit organizations. Of the 47 entities awarded 21st CCLC funds in fiscal year 2018 and 29 in fiscal year 2019, 10 were nonschool entities in each year. Additionally, we identified two school subrecipients as part of our sample who received a Single Audit report during the audit period, but the office had not reviewed it as of the date of testing, even though our testing occurred months after the audit reports were submitted.
- ***Risk Assessments***: As part of reviewing subrecipient audit reports, central office staff create a risk assessment for each subrecipient. Program staff for the Title I, Special Education, and Child Nutrition programs rely on this central

risk assessment and do not perform their own. Thus, for these programs, the only subrecipients who are assessed for risk are those receiving a Single Audit. A Single Audit is not required for subrecipients expending less than $750,000 in federal awards each year, but a risk assessment is required for all subrecipients regardless of the amount of federal funds they expend. Of the 413 local education entities receiving federal funds under the Title I, IDEA B, and Child Nutrition programs in fiscal year 2018 and 414 in fiscal year 2019, only 59 are included in the central risk assessment for each year. Office personnel indicated the program managers complete risk assessments in addition to the risk assessments completed by the central office. However, upon request, no documentation supporting this statement was provided by the office.

- *Management Decisions*: During design of the audit, office staff stated the letters issued to subrecipients who are put on high-risk or watch status as part of the central risk assessment process serve as their management decisions. We reviewed these letters during fieldwork and determined many of the required elements were not present.

  When we communicated this noncompliance, office staff stated audit acceptance letters issued by Local Government Services in the Department of Administration were in fact the management decisions. We reviewed these letters and they contain none of the elements required by the federal regulations. In addition, we determined all of the letters the office issued to subrecipients tested in our sample were not issued within 6 months of the subrecipient audit report being accepted by the federal audit clearinghouse.

Office staff stated verifying nonschool entities receive a Single Audit has not become a high enough priority to be addressed. Office staff further stated their concept of risk has evolved over the last several years to go beyond just financial risk, but they are having trouble developing a risk assessment process to encompass all risks associated with the subrecipients. Office staff believe they were meeting the intent of the management decision federal regulations through other, less formal interactions with subrecipients.

Recommendation #1

We recommend the Office of Public Instruction:

A. *Enhance internal controls to ensure compliance with federal subrecipient monitoring requirements, and*

B. *Comply with federal subrecipient monitoring requirements for the Title I, Grants to Local Education Agencies, Individuals with Disabilities Act, Part B, 21st Century Community Learning Centers, and Child Nutrition Cluster programs.*

Suspended and Debarred Verifications

The office can enhance its internal controls to ensure they do not award federal funds to suspended or debarred entities.

The office receives many federal awards they then subaward out to various subrecipients. This includes funding for the IDEA B, Title I, 21st CCLC, and Child Nutrition programs. Federal regulations require the office verify the subrecipients they are doing business with are not suspended or debarred from receiving federal contracts or assistance. The office may not enter into a transaction with an excluded person or entity. Federal regulations also require the office to establish and maintain effective internal controls that provides reasonable assurance the office is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

The suspended and debarred process protects the federal government from fraud, waste, and abuse. An entity can be suspended or debarred for a variety of reasons, including: the commission of various crimes such as fraud, embezzlement, bribery, falsification or destruction of records, and tax evasion; violation of antitrust statutes; willful failure to perform one or more public agreements; or knowingly doing business with an ineligible entity.

The office performs a monthly check of subrecipients to determine whether any are suspended or debarred. This check is done centrally for all federal programs. This check only includes schools, but the office awards funds to nonschool entities in some of its programs. During our audit of the 21st CCLC program, we found the program had 14 nonschool subrecipients during the audit period. The office awarded these nonschool subrecipients approximately $1,400,000 and $2,000,000 in fiscal years 2018 and 2019, respectively. These awards comprised approximately 26 percent and 37 percent of the total amount awarded to subrecipients in fiscal years 2018 and 2019, respectively. Office staff stated the data used in the monthly check includes all entities, but their current process does not provide a listing of nonschool entities for the verification.

When we tested the monthly central suspended and debarred check performed by the office for schools, we found no evidence the suspended and debarred status of subrecipients was checked for 8 of the 24 months of the audit period. Six of the 8 months were consecutive, and payments made during these months constitute approximately 25 percent, or $63.8 million, of total payments made for the IDEA B, Title I, 21st CCLC, and Child Nutrition programs. Office staff indicate there was a

change in staff completing these checks during the audit period. Office staff could not locate documentation of those checks completed before the change occurred, but represented the checks were performed.

Because of the issues noted above, the office cannot demonstrate their compliance with federal regulations requiring they confirm the entities they are entering into transactions with are not suspended or debarred. This could result in the office conducting business with a suspended or debarred entity. Our audit testing did not identify any suspended or debarred subrecipients.

Recommendation #2

We recommend the Office of Public Instruction strengthen internal controls related to checking suspended and debarred status for all subrecipients.

21st Century Community Learning Centers Payment Controls

The office can enhance internal controls to ensure they only pay allowable costs for the 21st Century Community Learning Centers (21st CCLC) program.

The office administers the 21st CCLC federal program. The 21st CCLC program provides 5-year subawards to subrecipients around the state to operate centers to provide students with academic enrichment opportunities during nonschool hours or periods when school is not in session. The 21st CCLC program is designed to complement the students' regular academic program, including tutoring and mentoring, homework help, hands-on science and technology education programs, music, arts, sports, and cultural activities. As with all federal programs, federal regulations require the office to establish and maintain effective internal control over the federal award that provides reasonable assurance that the nonfederal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. This is the first time this program has been audited due to changes in the federal regulations.

When a subrecipient wants payment for this program, they submit a cash request via the office's E-Grants system. This can happen as often as monthly; although many subrecipients only do it a few times a year depending on cash needs. The cash request contains the budget categories and budgeted amounts approved during the

application process, amounts previously requested, and current amounts requested. The subrecipient enters the amounts requested and provides details of what the requests are for in a description for each budget category. These descriptions varied in detail between the different cash requests. There is also an opportunity in the system for the subrecipient to upload supporting documents. However, the office does not require any documentation from subrecipients beyond a cash request. This request is reviewed and approved by office fiscal staff. If there are any unusual items included in the request or the fiscal staff has questions, they work with 21st CCLC program staff to resolve them prior to approving the payment. Office staff also perform monitoring visits in the first year of each subrecipient's grant award and at least once in the remaining years (years 2-5).

The office believes their current process provides them reasonable assurance the funds are expended as required by the federal regulations.

The office's internal control procedures do not ensure the costs it is approving for reimbursement are allowable under the program at the time they are paid. Office staff only identify potentially unallowable costs during the payment approval process if the subrecipient included expenditure descriptions that are inconsistent with the budget category.

We intended to test a sample of 49 out of the approximately 960 payments totaling approximately $10.5 million during the audit period. After testing the first four items in the sample, it was clear the support for these payments did not provide enough information to determine whether the amounts requested were for allowable costs under the grant.

As mentioned above, office staff perform monitoring visits in the first year of each subrecipient's grant award and at least once in the remaining years (years 2-5). These visits include reviews of financial records and supporting documents. However, this leaves three years of the 5-year grant period without any monitoring beyond the payment request review. If a subrecipient's second monitoring visit does not occur until year five, the office could be paying for unallowable costs for three years before identifying it with a monitoring visit. Combined with the lack of supporting documentation for the payments, this time frame does not allow the office to timely identify if unallowable costs have been paid. Additionally, many of the program subrecipients are nonschool entities that do not receive as much scrutiny and monitoring as schools do. Without more robust controls, there is risk that unallowable costs are being paid and would not be detected by office staff.

Recommendation #3

We recommend the Office of Public Instruction enhance their internal controls over the 21st Century Community Learning Centers program payments in order to ensure the expenditures charged are supported.

Monitoring of Test Security

The office needs to continue its implementation of assessment security procedures required by the Title I, Grants to Local Education Agencies (Title 1) program.

Title I is a federal program with the objective of improving the teaching and learning of children who are at risk of not meeting challenging academic standards and who live in areas with a high concentration of children from low-income families. As part of the Title I program, the office is required to establish and maintain an assessment system which uses testing data to measure student achievement. There are six required assessments in Montana: the Smarter Balanced Assessment Test, the ACCESS for ELLS 2.0, the Science Criterion-Referenced Test, the Science Criterion-Referenced Test-Alternate, the Multi-State Alternate Assessment, and the American College Testing (ACT). Student testing must be valid, reliable, and consistent with relevant professional and technical standards. Title I requires the office to implement policies and procedures to maintain test security and monitor the local education agencies' (LEAs) compliance with those policies and procedures.

State assessments are important in securing Title I funding. Assessments also help teachers and parents to identify needs for each individual student. Without adequate security and oversight, there is the possibility of unfair testing or inaccurate data.

In the prior audit, we found the office's procedures for ensuring LEAs are maintaining test security were incomplete. Information regarding test security was distributed to Montana's K-12 schools. However, the office had not yet developed a plan to monitor school level implementation of security procedures. We tested this requirement in the current audit and found the office took steps to address the issue but was unable to fully implement the recommendation during the audit period.

During fiscal year 2018, the office maintained its previous test security policy requiring schools to electronically certify they are abiding by the office's policies, but performed

no additional on-site monitoring, as it conducted best practices research and developed a new testing security monitoring process. In fiscal year 2019, the office began implementing the new monitoring process. The new process includes obtaining the certifications from the schools and following up on schools without the certifications or with incomplete certifications. The office began following up on the missing or incomplete certifications, but this extended beyond the audit period, meaning there were many schools who had not implemented the required testing security in fiscal year 2019. The office also performed on-site test monitoring assessments for 34 schools during the year, as required by the new process.

Even though the office developed and implemented the new testing security monitoring process during the audit period, they did not ensure the LEAs were maintaining test security while the new monitoring process was being developed in fiscal year 2018, which is an integral part of ensuring the tests are valid and reliable. This noncompliance extended into fiscal year 2019 because there were 58 schools with missing or incomplete certifications.

Office staff stated it took time to perform the best practices research and implement a new monitoring process.

Because this issue was not fully remediated within the audit period, it is included in this report. As mentioned at the beginning of this section, the office's internal control over the assessment security and monitoring was also an issue in the prior audit. We reported the issue to the federal government through the Single Audit report issued in March 2018. Under the Single Audit Act, we are required to determine whether the office has complied with federal statutes, regulations, and the terms and conditions of its federal awards; and, if we identify instances when the office is not in compliance, to report this to the federal government, including whether it was an issue in the prior audit.

Recommendation #4

We recommend the Office of Public Instruction:

A. *Continue to implement control procedures to monitor Montana's schools' implementation of the assessment security process, and*

B. *Comply with federal assessment security requirements for the Title I, Grants to Local Education Agencies.*

Accounting Internal Controls

State accounting policy requires all state agencies to establish and maintain agency internal controls. Specifically, state policy notes that management's role includes establishing internal control policies and procedures which are designed to safeguard agency assets and verify the accuracy and reliability of financial data to ensure compliance with applicable laws and regulations. State policy indicates internal controls are necessary for accountability, sound financial practices, preparation for audits, and fraud prevention. It further notes internal controls provide reasonable assurance the objectives of the entity will be achieved. The following two sections summarize instances when the office's internal controls were not sufficient to ensure proper financial reporting or compliance with state policy.

Revenue Estimates

The office's revenue estimate recording process creates excess estimates on the state accounting records.

State agencies are required to enter revenue estimates into the state's accounting system in order for revenue to be recorded on the system. Revenue estimates are entered by fund, account, and organization. On the state's accounting system, an organization is defined as a cost accounting unit that captures activity for a specific function or activity. Estimates can be made in a general organization, referred to as ALL, or in a more specific organization they have created for a specific function or activity. Estimates can be adjusted or moved between funds, accounts, and organizations at any point during the year.

Agencies can be as specific in their estimates as they would like. For instance, they can enter the estimate for all federal revenue in the general federal revenue account and general organization. Or, they can enter the estimate in each specific federal revenue account and specific organizations. However, if they do both for the same expected revenue, they are creating excess estimates on the accounting system. This is illustrated in Table 1 (see page 13). In the example, the agency expects to receive $1,000,000 in federal revenue for the fiscal year.

Table 1
Revenue Estimate Examples

	Account	Organization	Amount	Creates Excess Amounts?
Scenario A – General Estimate	590000	ALL	$1,000,000	No
	Total Federal Revenue Estimate		$1,000,000	
Scenario B – Specific Estimate	591234	19R	$500,000	No
	591234	19SA	$250,000	
	598765	19R	$250,000	
	Total Federal Revenue Estimate		$1,000,000	
Scenario C – General & Specific Estimate	590000	ALL	$750,000	No
	591234	19SA	$250,000	
	Total Federal Revenue Estimate		$1,000,000	
Scenario D – General & Specific Estimate	590000	ALL	$1,000,000	Yes
	591234	19SA	$250,000	
	Total Federal Revenue Estimate		$1,250,000	

Source: Compiled by the Legislative Audit Division.

In Table 1 above, scenarios A, B, and C are all ways for state agencies to record their revenue estimates and do not create excess estimates as the total federal revenue estimates recorded do not exceed the expected $1,000,000. However, scenario D creates excess estimate amounts as the total federal revenue estimates recorded exceed the expected $1,000,000.

The office uses individual revenue accounts to track the revenue from each of its federal programs and other revenue sources. The office initially recorded revenue estimates in the ALL organization for the specific revenue accounts. They then recorded additional estimates to specific accounting organizations for many of those same revenue accounts. As revenue was collected throughout each fiscal year, it was recorded against the estimates in the specific accounting organizations.

During the fiscal year-end closing process, the office typically removes the initial estimates in the ALL category and makes other adjustments to the estimates to align the estimates more with the actual revenues collected during the year. However, in fiscal year 2019, the initial revenue estimates were not backed out of the ALL category, which resulted in the large difference between actual and estimated revenues on the Schedule of Total Revenues & Transfers-In for the year. Per discussion with office staff, they intended to remove the estimates in the ALL category in fiscal year 2019, but did not before the books had closed for the fiscal year.

Because the office records estimates in both the ALL category and the more specific category for the same revenue, they are creating excess revenue estimates. And, while the amount of the differences this year were not material to the financial schedules, they very well could be in future years and result in opinion modifications. As a result, we classified the internal control deficiency as a material weakness in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* starting on page B-1.

Table 2
Difference Between Estimated and Actual Revenue
Fiscal Year 2019

Fund Type	Amount
General Fund	$31,867
State Special Revenue Fund	$6,738,814
Federal Special Revenue Fund	$59,001,030
Enterprise Fund	$130,094
Internal Service Fund	$2,878,738
Total	**$68,780,543**

Source: Compiled by the Legislative Audit Division from SABHRS.

Recommendation #5

We recommend the Office of Public Instruction improve internal control procedures to ensure accurate revenue estimate reporting.

Construction Work in Process

The office does not have internal controls to adjust Construction Work in Process balances once a project is complete.

State accounting policy requires agencies to record the capitalizable portion of construction projects that are not completed within one fiscal year as Construction Work in Process (CWIP) at fiscal year-end. This includes projects to develop information systems. Once the capital asset is placed in service, the CWIP balance is removed from the accounting records and recorded as a capital asset.

The office recorded CWIP while developing the Growth and Enhancement of Montana Students (GEMS) system. The system houses multiple years of data on student achievements, graduation rates, enrollment, and school finances and allows public users to access this data through interactive reports. The GEMS system was substantially complete by the end of fiscal year 2017. However, once the system was

substantially complete the CWIP balance was not removed from the accounting records. CWIP has not been adjusted since fiscal year 2015. As a result, CWIP and Intangible Assets are misstated on the state's accounting system for both fiscal year 2018 and fiscal year 2019. CWIP is overstated and Intangible Assets are understated by approximately $1.4 million in both years.

The office's controls over recording CWIP are not sufficient to identify when CWIP balances need to be updated. Office staff indicate they updated their fiscal year-end controls to review CWIP going forward.

While the amount of the misstatements this year were not material, they very well could be in future years and result in opinion modifications. As a result, we classified the internal control deficiency as a significant deficiency in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* starting on page B-1.

Recommendation #6

We recommend the Office of Public Instruction develop internal controls over the recording of construction work in process.

Internal Controls over Travel Costs

The office does not have adequate internal controls to ensure it only pays for travel costs in accordance with state accounting policy.

Travel is a routine part of many staff's duties to provide oversight to K-12 schools and to monitor federal education funds the office awards to schools. This travel often consists of attending education conferences, both within Montana and around the country, as well as visiting individual schools.

We reviewed 28 travel transactions and identified five instances where the office did not follow state policy:

- State policy requires employees to use the most economical seating available when using commercial travel. We identified one instance where the office paid for a first-class ticket for one employee while other employees on the same trip traveled in economy.

- State policy states the out-of-state lodging rates paid to employees must not exceed the federal lodging rate for the destination. However, state policy does allow lodging costs in excess of these rates provided the costs are within the agency's appropriation level and have documented justification pre-approved by the agency director. We identified three instances where justification of out-of-state lodging exceeding the prescribed maximum standard federal rate was not available.
- State policy also outlines the maximum lodging rate to be paid for in-state travel. Similar to out-of-state lodging, it allows in-state lodging costs to be paid above these rates provided the costs are within the agency's appropriation level and with documented justification and prior approval by the agency director. We identified one instance where lodging costs exceeded the allowed rate for in-state travel and no justification was available.

Office staff stated they missed that the travel documentation did not include the rate justification in the payment process. Staff further stated the first-class ticket was a one-time instance of not recovering the difference between the economy ticket and the first-class ticket in the claim submission process, but the office subsequently recovered the difference.

RECOMMENDATION #7

We recommend the Office of Public Instruction improve internal controls to ensure state travel and lodging policies are followed prior to paying travel costs.

Independent Auditor’s Report and Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Public Instruction for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Office of Public Instruction as of June 30, 2019, and June 30, 2018, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting
In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Office of Public Instruction for each of the fiscal years ended June 30, 2019, and 2018, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2020, on our consideration of the Office of Public Instruction's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 3 , 2020

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND EQUITY: July 1, 2018	$ (968,588)	$ 269,322	$ 0	$ (209,872)	$ (2,071,099)
ADDITIONS					
Budgeted Revenues & Transfers-In	133	288,386	187,051,594	159,906	3,096,262
Nonbudgeted Revenues & Transfers-In	(60)	81,904		7,654	10,592
Prior Year Revenues & Transfers-In Adjustments		1,050	44,465		(4,800)
Direct Entries to Fund Equity	797,904,412	54,647,799		45,656	14,224
Total Additions	797,904,485	55,019,139	187,096,059	213,216	3,116,278
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	797,769,542	54,020,047	187,209,777	146,008	2,987,682
Nonbudgeted Expenditures & Transfers-Out	62	937,482		31,687	139,924
Prior Year Expenditures & Transfers-Out Adjustments	(23,827)		(113,718)		
Total Reductions	797,745,777	54,957,529	187,096,059	177,695	3,127,606
FUND EQUITY: June 30, 2019	$ (809,880)	$ 330,932	$ 0	$ (174,351)	$ (2,082,427)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund
FUND EQUITY: July 1, 2017	$ (997,702)	$ 221,988	$ 0	$ (221,848)	$ (1,748,291)
ADDITIONS					
Budgeted Revenues & Transfers-In	9,130	189,580	182,512,647	150,162	2,758,913
Nonbudgeted Revenues & Transfers-In		115,164		8,091	37,247
Prior Year Revenues & Transfers-In Adjustments		127,500	112,024		
Direct Entries to Fund Equity	773,713,874	48,085,771		8,055	207,441
Total Additions	773,723,004	48,518,015	182,624,671	166,308	3,003,601
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	773,704,821	48,279,521	182,624,740	137,562	3,168,789
Nonbudgeted Expenditures & Transfers-Out		191,160		16,770	155,897
Prior Year Expenditures & Transfers-Out Adjustments	(10,932)		(69)		1,723
Total Reductions	773,693,889	48,470,681	182,624,671	154,332	3,326,409
FUND EQUITY: June 30, 2018	$ (968,588)	$ 269,322	$ 0	$ (209,872)	$ (2,071,099)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		$ 159,808			$ 33	$ 159,841
Taxes					10,592	10,592
Charges for Services		12,000		$ 159,906	1,156,406	1,328,312
Sale of Documents, Merchandise and Property	$ 133					133
Grants, Contracts, and Donations	(60)	7,460		7,654		15,054
Transfers-in		130,641	$ 3,479,565			3,610,206
Federal Indirect Cost Recoveries					1,935,023	1,935,023
Miscellaneous		56,644				56,644
Federal		4,787	183,616,494			183,621,281
Total Revenues & Transfers-In	73	371,340	187,096,059	167,560	3,102,054	190,737,086
Less: Nonbudgeted Revenues & Transfers-In	(60)	81,904		7,654	10,592	100,090
Prior Year Revenues & Transfers-In Adjustments		1,050	44,465		(4,800)	40,715
Actual Budgeted Revenues & Transfers-In	133	288,386	187,051,594	159,906	3,096,262	190,596,281
Estimated Revenues & Transfers-In	32,000	7,027,200	246,052,624	290,000	5,975,000	259,376,824
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (31,867)	$ (6,738,814)	$ (59,001,030)	$ (130,094)	$ (2,878,738)	$ (68,780,543)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		$ (189,242)			$ (999,967)	$ (1,189,209)
Charges for Services		(92,500)		$ (130,094)	(1,018,594)	(1,241,188)
Sale of Documents, Merchandise and Property	$ (31,867)					(31,867)
Grants, Contracts, and Donations		(3,305,000)				(3,305,000)
Transfers-in		(151,859)	$ (2,960,435)			(3,112,294)
Federal Indirect Cost Recoveries					(860,177)	(860,177)
Miscellaneous		(3,000,000)				(3,000,000)
Federal		(213)	(56,040,595)			(56,040,808)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (31,867)	$ (6,738,814)	$ (59,001,030)	$ (130,094)	$ (2,878,738)	$ (68,780,543)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		$ 158,617				$ 158,617
Taxes					$ 6,941	6,941
Charges for Services		31,813		$ 150,162	926,177	1,108,152
Sale of Documents, Merchandise and Property	$ 9,130					9,130
Grants, Contracts, and Donations		22,567		8,091	30,306	60,964
Transfers-in		127,500	$ 5,065,659			5,193,159
Federal Indirect Cost Recoveries					1,832,736	1,832,736
Miscellaneous		91,747				91,747
Federal			177,559,012			177,559,012
Total Revenues & Transfers-In	9,130	432,244	182,624,671	158,253	2,796,160	186,020,458
Less: Nonbudgeted Revenues & Transfers-In		115,164		8,091	37,247	160,502
Prior Year Revenues & Transfers-In Adjustments		127,500	112,024			239,524
Actual Budgeted Revenues & Transfers-In	9,130	189,580	182,512,647	150,162	2,758,913	185,620,432
Estimated Revenues & Transfers-In	9,130	189,581	180,242,351	150,162	2,758,913	183,350,137
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (1)	$ 2,270,296	$ 0	$ 0	$ 2,270,295
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Grants, Contracts, and Donations		$ (1)				$ (1)
Transfers-in			$ 639,613			639,613
Federal			1,630,683			1,630,683
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 0	$ (1)	$ 2,270,296	$ 0	$ 0	$ 2,270,295

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Local Education Activities	State Level Activities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		$ 10,486,829	$ 10,486,829
Hourly Wages		1,224	1,224
Employee Benefits		4,086,075	4,086,075
Personal Services-Other		8,556	8,556
Total		14,582,684	14,582,684
Operating Expenses			
Other Services	$ 1,273,373	9,417,877	10,691,250
Supplies & Materials	30,865	774,468	805,333
Communications		261,838	261,838
Travel		1,040,288	1,040,288
Rent		754,265	754,265
Utilities		879	879
Repair & Maintenance		10,516	10,516
Other Expenses		4,109,906	4,109,906
Total	1,304,238	16,370,037	17,674,275
Local Assistance			
From State Sources	838,043,414	727,544	838,770,958
Total	838,043,414	727,544	838,770,958
Grants			
From State Sources	854,051		854,051
From Federal Sources	165,928,324		165,928,324
Grant To Governmental Entities	251,126		251,126
Total	167,033,501		167,033,501
Transfers-out			
Fund transfers	787,728	1,960,370	2,748,098
Intra-Entity Expense		1,996,337	1,996,337
Total	787,728	3,956,707	4,744,435
Post Employment Benefits			
Other Post Employment Benefits		7,986	7,986
Employer Pension Expense		290,827	290,827
Total		298,813	298,813
Total Expenditures & Transfers-Out	$ 1,007,168,881	$ 35,935,785	$ 1,043,104,666
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	$ 786,472,456	$ 11,273,321	$ 797,745,777
State Special Revenue Fund	53,729,247	1,228,282	54,957,529
Federal Special Revenue Fund	166,967,178	20,128,881	187,096,059
Enterprise Fund		177,695	177,695
Internal Service Fund		3,127,606	3,127,606
Total Expenditures & Transfers-Out	1,007,168,881	35,935,785	1,043,104,666
Less: Nonbudgeted Expenditures & Transfers-Out		1,109,155	1,109,155
Prior Year Expenditures & Transfers-Out Adjustments		(137,546)	(137,546)
Actual Budgeted Expenditures & Transfers-Out	1,007,168,881	34,964,176	1,042,133,057
Budget Authority	1,044,183,323	44,607,406	1,088,790,729
Unspent Budget Authority	$ 37,014,442	$ 9,643,230	$ 46,657,672
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	$ 7,495,635	$ 850	$ 7,496,485
State Special Revenue Fund	11,841,325	145,549	11,986,874
Federal Special Revenue Fund	17,677,482	9,237,518	26,915,000
Enterprise Fund		11,525	11,525
Internal Service Fund		247,788	247,788
Unspent Budget Authority	$ 37,014,442	$ 9,643,230	$ 46,657,672

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Local Education Activities	State Level Activities	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT			
Personal Services			
Salaries		$ 10,723,920	$ 10,723,920
Employee Benefits		3,767,737	3,767,737
Personal Services-Other		305	305
Total		14,491,962	14,491,962
Operating Expenses			
Other Services	$ 1,277,456	12,126,061	13,403,517
Supplies & Materials		605,332	605,332
Communications		272,230	272,230
Travel		932,440	932,440
Rent		744,946	744,946
Utilities		1,181	1,181
Repair & Maintenance		5,393	5,393
Other Expenses		3,415,192	3,415,192
Total	1,277,456	18,102,775	19,380,231
Local Assistance			
From State Sources	809,256,866		809,256,866
Total	809,256,866		809,256,866
Grants			
From State Sources	688,199		688,199
From Federal Sources	159,349,074		159,349,074
Grant To Governmental Entities	343,596		343,596
Total	160,380,869		160,380,869
Transfers-out			
Fund transfers	713,923	1,748,626	2,462,549
Intra-Entity Expense		2,000,497	2,000,497
Total	713,923	3,749,123	4,463,046
Post Employment Benefits			
Other Post Employment Benefits		8,419	8,419
Employer Pension Expense		288,589	288,589
Total		297,008	297,008
Total Expenditures & Transfers-Out	$ 971,629,114	$ 36,640,868	$ 1,008,269,982
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	$ 763,249,194	$ 10,444,695	$ 773,693,889
State Special Revenue Fund	47,973,360	497,321	48,470,681
Federal Special Revenue Fund	160,406,560	22,218,111	182,624,671
Enterprise Fund		154,332	154,332
Internal Service Fund		3,326,409	3,326,409
Total Expenditures & Transfers-Out	971,629,114	36,640,868	1,008,269,982
Less: Nonbudgeted Expenditures & Transfers-Out		363,827	363,827
Prior Year Expenditures & Transfers-Out Adjustments	(31,807)	22,529	(9,278)
Actual Budgeted Expenditures & Transfers-Out	971,660,921	36,254,512	1,007,915,433
Budget Authority	1,007,419,837	46,031,006	1,053,450,843
Unspent Budget Authority	$ 35,758,916	$ 9,776,494	$ 45,535,410
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	$ 5,578,681	$ 55	$ 5,578,736
State Special Revenue Fund	12,686,827	120,209	12,807,036
Federal Special Revenue Fund	17,493,408	9,190,875	26,684,283
Enterprise Fund		18,898	18,898
Internal Service Fund		446,457	446,457
Unspent Budget Authority	$ 35,758,916	$ 9,776,494	$ 45,535,410

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
+A1Additional information is provided in the notes to the financial schedules beginning on page A-9.

Office of Public Instruction
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2019

1. <u>Summary of Significant Accounting Policies</u>

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the office records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) funds. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The office uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The office's State Special Revenue Funds include School Food, School Facility

& Technology, Traffic Safety Education, State School Oil & Gas Impact, Montana Support for Schools, and the Guarantee Account.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The office's Federal Special Revenue Funds account for the National School Lunch Program, Title I, IDEA, Title II, and various other federal grants.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The office's Internal Service Fund is used to fund internal and statewide central service type costs through an approved indirect cost rate.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The office's Enterprise Fund is used to account for the Advanced Drivers Education program.

2. Negative Fund Equity

- **General Fund** - the negative fund equity in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceeded the assets it has placed in the fund, resulting in negative ending fund equity for each of the fiscal years ended June 30, 2018 and June 30, 2019.
- **Internal Service Fund** – the negative fund equity in the Internal Service Fund does not indicate overspent appropriation authority. The office has a legislative and federal approved indirect cost rate which is used to collect a percentage of revenues from various programs. For each of the fiscal years ended June 30, 2018 and June 30, 2019, noncash liabilities related to the state pension liability created negative fund equity.
- **Enterprise Fund** – the negative fund equity in the Enterprise Fund does not indicate overspent appropriation authority. For each of the fiscal years ended June 30, 2018 and June 30, 2019, noncash liabilities related to the state pension liability created negative fund equity.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds

The Schedule of Changes in Fund Equity reflects a $37,980,124 General Fund decrease from 2017 to 2018 which was primarily due to special session budget cuts to Block Grants and the elimination of the NRD payment. Fiscal year 2019 compared to 2018 there was a $24,190,538 increase in General Fund activity due to statutorily driven funding increases for K-12 distributions and a $6,562,028 increase in State Special Revenue activity due to increased activity in the Guarantee Account.

4. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for fiscal year 2018 presents unspent budget authority of $12,686,827 in the State Special Revenue Fund and $17,493,408 in the Federal Special Revenue Fund. State Special Revenue Fund unspent authority is related to lower than estimated oil & gas revenues in the Guarantee Account, Educational Improvement, and School Facility & Tech Account. In the Federal Special Revenue Fund federal budgeted authority exceeded estimated expenditures in the Striving Readers, Preschool Development, and various other general federal programs.

The Schedule of Total Expenditures & Transfers-Out for fiscal year 2019 presents unspent budget authority of $11,841,325 in the State Special Revenue Fund and $17,677,482 in the Federal Special Revenue Fund. State Special Revenue Fund unspent authority is related to Educational Improvement and School Facility & Tech Account. Federal Special Revenue Funds unspent authority is related to Striving Readers and Preschool Development.

5. Revenue Estimates

The Schedule of Total Revenues & Transfers-In presents the agency's actual revenues received, by class, in comparison to estimated revenues. As part of the general fiscal process and at the agency's discretion, estimated revenues may be adjusted throughout the fiscal year in the event actuals do not align with estimates. In 2019 there were minimal adjustments made to revenue estimates in comparison to 2018, resulting in a $56,040,595 difference in Federal Estimated Revenues & Transfers-In between fiscal years.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Public Instruction for each of the fiscal years ended June 30, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated February 3, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. We

consider the internal control deficiency over revenue estimates, described on page 12, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit the attention by those charged with governance. We consider the internal control deficiency over construction work in process, described on page 14, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Office of Public Instruction Response to Findings

The office's response to the findings identified in our audit are described on page C-1 of this report. The office's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 3, 2020

Office of Public Instruction

Office Response

Elsie Arntzen, Superintendent
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OFFICE OF PUBLIC INSTRUCTION
STATE OF MONTANA

Putting Montana Students First A+

March 11, 2020

RECEIVED
MAR 11 2020
LEGISLATIVE AUDIT DIV.

Angus Maciver
Legislative Auditor
Legislative Audit Division
P. O. Box 201705
Helena, MT 59620-1705

Re: Financial-Compliance Audit

Dear Mr. Maciver:

Following is our response to the recommendations contained in the Office of Public Instruction's (OPI) 2018-2019 audit report.

Recommendation #1
We Recommend the Office of Public Instruction:

A. Enhance internal controls to ensure compliance with federal subrecipient monitoring requirements, and

B. Comply with federal subrecipient monitoring requirements for the Title I, Grants to Local Education Agencies, Individuals with Disabilities Act, Part B, 21st Century Community Learning Centers, and Child Nutrition Cluster programs.

OPI Response: We Concur.

The OPI will review audits provided by all subrecipients that are non-school entities before making any additional awards. The OPI will implement a risk assessment system for all entities receiving federal grants from the OPI prior to awarding any further grants. The OPI has created a management decision letter template that complies with Federal regulations and will be used for all audits received from this point forward.

Recommendation #2
We recommend the Office of Public Instruction strengthen internal controls related to checking suspended and debarred status for all subrecipients.

OPI Response: We Partially Concur.

OPI did complete the suspended and debarment review for the entire audit period even though supporting documentation was not available for a portion of the period reviewed. OPI has enhanced the review process to include non-school entities.

Recommendation #3

We recommend the Office of Public Instruction enhance their internal controls over the 21st Century Community Learning Centers program payments in order to complement their monitoring controls and ensure the expenditures charged are supported.

OPI Response: We Partially Concur.

OPI believes that the current budget approval process, fiscal review, and monitoring practices meet all federal compliance requirements. In addition to these controls, OPI completes annual reviews of school audits which provides reasonable assurance over allowable activities. In an effort to enhance current internal controls, OPI will implement an annual desk audit for non-school recipients of 21st Century funds that do not receive an audit.

Recommendation #4

We recommend the Office of Public Instruction:

A. Continue to implement control procedures to monitor Montana's schools' implementation of the assessment security process, and

B. Comply with federal assessment security requirements for the Title I, Grants to Local Education Agencies.

OPI Response: We Concur.

The OPI will continue to implement the assessment test security monitoring procedures approved via the peer review process by USED.

Recommendation #5

We recommend the Office of Public Instruction improve internal control procedures to ensure accurate revenue estimate reporting.

OPI Response: We Concur.

OPI will complete necessary accounting entries at the beginning of the fiscal year to remove the ALL revenue estimates. In addition, OPI will continue to complete a fiscal year-end review of revenue estimates and make adjustments as deemed appropriate.

Recommendation #6
We recommend the Office of Public Instruction develop internal controls over the recording of construction work in progress.

OPI Response: We Concur.

OPI has implemented a fiscal year-end review process that will address any CWIP activity in the applicable fiscal year.

Recommendation #7
We recommend the Office of Public Instruction improve internal controls to ensure state travel and lodging policies are followed prior to paying travel costs.

OPI Response: We Concur.

OPI has enhanced internal controls in the travel process to ensure all required forms are completed and retained.

The Montana Office of Public Instruction is committed to improve and grow in all aspects of the agency's operations. We view these recommendations as an opportunity to take a fresh look into our current and future practices. The team at OPI has reviewed these recommendations with utmost diligence and can proudly report we have remedied the majority of the recommendations and have a plan for those that require additional resources to implement. OPI thanks the Audit Committee and Legislative Audit for the team effort in continuing to make our agency more efficient and effective.

Sincerely,

Elsie Arntzen
Superintendent of Public Instruction